

A nonprofit organization formed to help reduce personal bankruptcy by informing the public on personal money management and aiding low-income individuals and families with financial problems is exempt under section 501(c)(3) of the Code.

Advice has been requested whether a nonprofit organization that operates in the manner described below qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was formed to help reduce the incidence of personal bankruptcy by informing the public on personal money management and by assisting low-income individuals and families who have financial problems. Its board of directors is comprised of representatives from religious organizations, civic groups, labor unions, business groups, and educational institutions.

The organization provides information to the public on budgeting, buying practices, and the sound use of consumer credit through the use of films, speakers, and publications. It aids low-income individuals and families who have financial problems by providing them with individual counseling and, if necessary, by establishing budget plans. Under a budget plan, the debtor voluntarily makes fixed payments to the organization. The funds are kept in a trust account and disbursed on a partial payment basis to the creditors, whose approval of the establishment of the plan is obtained by the organization. These services are provided without charge to the debtor. The debtor receives full credit against his debts for amounts paid. The organization does not make loans to the debtors or negotiate loans on their behalf.

The organization's receipts are from contributions, primarily from the creditors participating in the organization's budget plans. However, the creditors are not required to make contributions as a condition of participation. Disbursements are made for general operating expenses.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable or educational purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations defines the term 'charitable' as including relief of the poor and distressed.

Section 1.501(c)(3)-1(d)(3) of the regulations defines the term 'educational' as including the instruction of the public on subjects useful to the individual and beneficial to the community.

By aiding low-income individuals and families who have financial problems and by providing, without charge, counseling and a means for the orderly discharge of indebtedness, the

organization is relieving the poor and distressed. Furthermore, by providing the public with information on budgeting, buying practices, and the sound use of consumer credit, the organization is instructing the public on subjects useful to the individual and beneficial to the community.

Accordingly, the organization is exempt from Federal income tax under section 501(c)(3) of the Code.

Compare Revenue Ruling 65-299, C.B. 1965-2, 165, which holds that a nonprofit organization formed to advise, counsel, and assist individuals in solving their financial difficulties by budgeting their income and expenses and effecting an orderly program for the payment of their obligations qualifies for exemption from Federal income tax under section 501(c)(4) of the Code (rather than under section 501(c)(3)).

In that case the organization was not engaged in any educational activities, and the families or individuals eligible for assistance were not limited to those who were in need of such assistance as proper recipients of charity.

Even though an organization considers itself within the scope of this Revenue Ruling, it must (in order to establish exemption under section 501(c)(3) of the Code) file an application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.